

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Statutory Review of the System)
for Regulating Rates and Classes)
for Market Dominant Products)

Docket No. RM2017-3

**VALPAK DIRECT MARKETING SYSTEMS, INC. AND
THE VALPAK FRANCHISE ASSOCIATION, INC.
SUPPLEMENTAL COMMENTS IN RESPONSE TO ORDER NO. 4574
(April 30, 2018)**

On April 13, 2018, the Postal Regulatory Commission (“Commission”) issued Order No. 4574, terminating the non-public status of Appendix A to the Postal Service’s Initial Comments that were filed on March 1, 2018. That Order direct the Postal Service to file a public version of the complete Appendix A,¹ and that interested parties could file comments “specifically limited to discussion of Appendices A and G” within 10 days of the Postal Service’s filing of those Appendices. Valpak Direct Marketing Systems, Inc. and The Valpak Franchise Association, Inc. (hereinafter “Valpak”) hereby submit these brief joint Supplemental Comments on Postal Service Public Appendix A filed on April 18, 2018.

I. The Postal Service’s Projection’s Are Optimistic Based on What They Do Not Show.

Appendix A presents two sets of projections for the next five years under two variations of a price cap: (i) Chart 1 shows projected **net losses** and (ii) Chart 2 shows projected **liquidity**. The Postal Service chart does not show what portion of those losses on Chart 1 will

¹ Order No. 4574 applies to both Appendix G to the Postal Service’s 2017 Comments and to Appendix A to the Postal Service’s 2018 Initial Comments. These Supplemental Comments only address the more recent data in Appendix A.

be the result of postal operations and what portion is the result of congressionally imposed “retirement-related obligations” which have not been and are not being paid. For example, in FY 2017, the Postal Service elsewhere has reported net losses of \$2.7 billion, but that amount included \$3.6 billion in Retiree Health Benefit Fund (“RHBF”), CSRS, and FERS amortization payments, on which the Postal Service completely defaulted. *See* Commission Financial Analysis of USPS Financial Results and 10-K Statement (Apr. 5, 2018) at 9. Including the non-cash workers’ compensation adjustment, the Postal Service had an operating profit in FY 2017. Thus, Chart 1 of Appendix A is of little value in this docket since the portion of the Postal Service’s projected net losses on Chart 1 which are operating losses is not shown separately from the portion that is for artificially imposed and unpaid retirement-related obligations.

II. The Assumptions of the Postal Service’s Appendix A Are Pure Fantasy.

Chart 2 of Appendix A projects the Postal Service’s liquidity assuming “no defaults on retirement-related obligations.” We take this description to mean that the Postal Service included the prefunding obligations of the RHBF, CSRS, and FERS, which the Postal Service has not been paying in recent years, is not paying now, and the Commission has no reason to believe the Postal Service will pay in the next several years. Obviously, if the Postal Service does not have the cash to pay those “obligations,” then it will default on them, as it defaulted on the \$5.5 billion annual CSRS payment for many years, and the Postal Service could never actually suffer the impossible projected reductions in liquidity that it presents in Chart 2.

Interestingly, Chart 2, if accurate, demonstrates that the supplemental pricing authority now being considered will not solve the problem of congressionally imposed retirement

obligations. As Valpak has argued previously,² the Commission Order justified the supplemental pricing authority based on the Postal Service's total losses in recent years, which losses were primarily driven by the Postal Service's unpaid retiree liabilities. However, there is near unanimous agreement among commenters that those obligations are artificial and will require a legislative remedy. A statutory problem requires a legislative remedy. Those losses will continue to exist even if the Postal Service were granted supplemental pricing authority. Thus, if the problem still exists after the Commission's proposed solution, then the solution cannot be justified as a remedy for that problem. Any revisions to the price cap system not tied directly to achieving positive net operating revenue should not be recommended.

Respectfully submitted,

/s/

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² See Valpak Initial Comments at 11-12, Valpak Reply Comments at 7-10.